

Message Text

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ACTION EA-12

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FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 9962

INFO USMISSION GENEVA

AMCONSUL HONG KONG

AMEMBASSY TAIPEI

AMEMBASSY TOKYO

UNCLAS SECTION 1 OF 2 SEOUL 2248

E.O. 11652: N/A

TAGS: ECON, ETRD, KS

SUBJECT: CONSUMERS POSING PROBLEMS

REF: SEOUL 1135

SUMMARY: PRICE AND MONETARY PROBLEMS DOMINATE KOREAN ECONOMIC SCENE. IN THE FIRST TWO MONTHS MONEY SUPPLY HAS ADVANED 6.6 PERCENT, CONSUMER PRICES 5 PERCENT AND WHOLE-SALE PRICES 4.1 PERCENT OVER DECEMBER 1977 LEVELS. TO DATE DEFICIT GOVERNMENT SPENDING RATHER THAN AN INFLUX OF FOREIGN ASSETS IS THE PRINCIPAL CULPRIT IN MONETARY GROWTH. AS A RESULT OF THE INFLATIONARY ASPECTS OF THE ECONOMY PRICE FREEZES AND CONTROLS ARE AGAIN BEING PLACED ON THE ECONOMY TOGETHER WITH MORAL EXHORTATIONS FOR CONSUMERS TO RESTRAIN THEMSELVES.

THE FOREIGN SECTOR CONTINUES STRONG. EXPORTS IN FEBRUARY WERE \$833 MILLION OR 33.2 PERCENT ABOVE THOSE RECORDED A YEAR EARLIER. SINCE IMPORTS ROSE EVEN FASTER
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(38.3 PERCENT), THE BALANCE OF PAYMENTS RECORDED A SLIGHT DEFICIT DESPITE NET LONG-TERM CAPITAL INFLOWS AND RESERVES FELL \$41 MILLION TO \$4,377 MILLION. END SUMMARY.

1. PRICES AND THE PROBLEMS OF CONTROLLING MONETARY GROWTH DOMINATED KOREA'S ECONOMIC PERFORMANCE AND POLICY OVER THE PAST MONTH. THE MONEY SUPPLY ROSE 3.3 PERCENT

IN FEBRUARY (5.6 PERCENT SEASONALLY ADJUSTED) AND NOW STANDS 6.6 PERCENT ABOVE DECEMBER LEVELS AND 41.4 PERCENT OVER TOTAL AT THE END OF FEBRUARY 1977. DOMESTIC CREDIT WAS UP BY 4.8 PERCENT IN FEBRUARY (5 PERCENT SEASONALLY ADJUSTED) AND STANDS 9.9 PERCENT ABOVE DECEMBER AND 31.6 PERCENT ABOVE FEBRUARY 1977 LEVELS.

2. AS IN JANUARY THE PRINCIPAL FACTOR BEHIND THE MONETARY GROWTH WAS THE GOVERNMENT SECTOR WITH FOREIGN ASSETS ACTUALLY SHOWING A DECLINE. BOTH THE GOVERNMENT GENERAL BUDGET AND SPECIAL FUNDS HAD A COMBINED DEFICIT OF 306 BILLION WON FOR THE FIRST TWO MONTHS OF THIS YEAR (\$632 MILLION) COMPARED TO A SLIGHT SURPLUS A YEAR AGO. MOST OF THE DEFICIT WAS DUE TO THE FUNDING OF A LARGE AMOUNT OF GRAIN PURCHASES THROUGH THE GRAIN MANAGEMENT FUNDS.

3. AS A RESULT OF THE CONTINUED FLOOD OF LIQUIDITY PRICES TOOK ANOTHER LEAP FORWARD IN FEBRUARY. WHILE WHOLESALE PRICES ROSE 1.8 PERCENT (0.2 PERCENT SEASONALLY ADJUSTED), CONSUMER PRICES WERE UP BY 2.1 PERCENT (1.3 PERCENT SEASONALLY ADJUSTED). IN THE FIRST TWO MONTHS OF THE YEAR CONSUMER PRICES ARE UP 5 PERCENT AND WHOLESALE PRICES 4.1 PERCENT, CAUSING INCREASED DOUBT AS TO WHETHER THE 10 PERCENT INFLATION GOAL FOR 1978 CAN BE REALIZED. FOOD PRICES CONTINUE TO LEAD THE PARADE WITH CONSUMER FOOD PRICES UP 3.4 PERCENT IN FEBRUARY AND 4.1 PERCENT ON THE WHOLE SALE LEVEL. RICE, BEEF, PORK AND OTHER QUALITY UNCLASSIFIED

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FOODS WERE IN THE FOREFRONT OF THE ADVANCE. HOWEVER, INDICATIONS ARE THAT PRICES, INCLUDING FOODSTUFFS, MAY BE STABILIZING.

4. KOREAN CONSUMERS APPEAR TO BE ON A BUYING SPREE. NEWSPAPERS REPORT THAT DEMAND FOR LUXURIOUS (SIC) ITEMS AS FURNITURE, SEWING MACHINES, PIANOS, REFRIGERATORS AND WATCHES TOGETHER WITH "HIGH CLASS" FOODSTUFFS AS POWDERED MILK, BREAD AND BEER IS RAPIDLY INCREASING. AUTOMOBILE SALES ARE REPORTEDLY DOUBLE THOSE OF A YEAR AGO WHILE SALES OF PIANOS ARE UP 109 PERCENT, SEWING MACHINES 141 PERCENT AND REFRIGERATORS 516 PERCENT. PRESIDENT PARK ON MARCH 17 ASKED THAT CONSUMERS RESTRAIN THEMSELVES AND REDUCE THEIR CONSUMPTION DURING A PERIOD OF PRICE INCRZASES.

5. AT THE SAME TIME DPM NAM ANNOUNCED A NEW SERIES OF PRICE STABILIZATION MEASURES. THESE INCLUDE THE FREEZING OF PRICES FOR MOST MANUFACTURED GOODS AND PUBLIC UTILITY RATES. NAM AGAIN CALLED FOR EXPANSION OF IMPORTS BUT INDICATIONS ARE THAT EPB IS STILL MEETING RESISTANCE FROM THE MINISTRY OF COMMERCE AND INDUSTRY AND OTHER MINISTRIES WITH MCI STILL SEEKING TO LIMIT LIBERALIZATION TO RAW MATERIALS AND CAPIAL GOODS. THE PRICE OF GOVERNMENT-HELD RICE IS TO BE MAINTAINED AT PRESENT

LEVELS AND GOVERNMENT-STORED RICE WILL BE RELEASED WITHOUT
LIMIT TO HOLD-DOWN PRICES. FURTHER CURBS ARE TO BE PLACED ON
REAL ESTATE SPECULATIONS, A FAVORITE PASTIME OF AFFLUENT
KOREANS.
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6. TURNING TO THE FOREIGN SECTOR, THINGS WERE BRIGHTER.
EXPORTS FOR FEBRUARY TOTALED \$833 MILLION (\$1,031 MILLION SEASONALLY
ADJUSTED), UP 7.7 PERCENT FROM JANUARY AND 33.2 PERCENT ABOVE
FEBRUARY 1977 LEVELS. L/C ARRIVALS INCREASED TO \$855 MILLION
(\$1,033 MILLION SEASONALLY ADJUSTED), 12.6 PERCENT ABOVE JANUARY
AND 19 PERCENT ABOVE FEBRUAR 1977 TOTALS. THERE ARE REPORTS
THAT AFTER BEING IN THE DOLDRUMS KOREAN TEXTILES ARE BEGINNING
TO SHOW RENEWED STRENGTH IN RECENT MONTHS WITH TEXTILE EXPORTS
AT THE END OF FEBRUARY UP 18 PERCENT COMPARED TO A YEAR AGO.
IRON AND STEEL, MACHINERY AND FOOTWEAR ALL ARE DEMONSTRATING
ABOVE-AVERAGE GROWTH.

7. IMPORTS IN FEBRUARY INCREASED 1.3 PERCENT FROM JANUARY
TO \$950 MILLION OR 38.3 PERCENT ABOVE THOSE RECORDED IN FEBRUARY
1977. IMPORT LICENSES AT \$956 MILLION ISSUED IN FEBRUARY ARE
39 PERCENT ABOVE PREVIOUS YEAR'S LEVEL. ESPECIALLY SIGNIFICANT
GROWTH IS OBSERVED IN IMPORTS OF TEXTILE RAW MATERIALS, MACHINERY,
TRANSPORTATION EQUIPMENT AND IRON AND STEEL RAW MATERIALS.

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8. WHILE THE GROWTH RATE APPEARS TO BE SLACKENING INVISIBLE RECEIPTS CONTINUE TO BE A POSITIVE CONTRIBUTOR TO KOREA'S EXTERNAL ACCOUNTS. AT THE END OF THE FIRST TWO MONTHS INVISIBLE RECEIPTS STOOD AT \$567 MILLION COMPARED TO \$461 IN PAYMENTS. AS A RESULT OF A \$66 MILLION DEFICIT IN THE CURRENT BALANCE TOGETHER WITH A SMALL NET SURPLUS ON OVERALL CAPITAL ACCOUNT FOREIGN EXCHANGE HOLDINGS FELL \$41 MILLION WITH RESERVES NOW STANDING AT \$4,377 MILLION.

9. ALTHOUGH DECLINING 7.5 PERCENT FROM DECEMBER (UP 1.2 PERCENT SEASONALLY ADJUSTED), INDUSTRIAL PRODUCTION INDEX IN JANUARY WAS 24.8 PERCENT (24.9 PERCENT SEASONALLY ADJUSTED) ABOVE JANUARY 1977 LEVELS. ALMOST ALL SECTORS PARTICIPATED WITH ESPECIALLY STRONG SHOWING BY CHEMICAL PRODUCTS, METAL PRODUCTS, MACHINERY AND TEXTILES. CONSTRUCTION PERMITS ISSUED FOR THE FIRST TWO MONTHS ARE UP 43 PERCENT, PACED BY HOUSING WHICH SHOWED A 99 PERCENT GAIN OVER YEAR EARLIER LEVELS. ON THE OTHER HAND, INDUSTRIAL CONSTRUCTION PERMITS WERE DOWN 3 PERCENT.

10. COMMENT: THERE IS A TREMENDOUS PENT-UP CONSUMER DEMAND IN THIS COUNTRY WHICH IS BEGINNING TO MAKE ITSELF FELT. WHILE MUCH OF THE LIQUIDITY HAS BEEN SIPHONED OFF INTO SAVINGS (TOTAL SAVINGS IN FEBRUARY WERE 55 PERCENT ABOVE THOSE RECORDED ONE YEAR AGO WITH SAVINGS DEPOSITS UP 49 PERCENT) ENOUGH REMAINS FOR THIS DEMAND TO MAKE ITSELF FELT. PRICE CONTROLS AND FREEZES DO NOT APPEAR TO BE THE ANSWER, YET MANY ELEMENTS WITHIN THE GOVERNMENT REMAIN UNWILLING TO RAISE "THE CONSUMPTION TREND" BY LIBERALIZING CONSUMER IMPORTS OR EXPANDING DOMESTIC PRODUCTION OF SUCH GOODS. THE ECONOMIC POLICY MAKERS ARE GOING TO HAVE TO DO A CAREFUL BALANCING ACT IN THE COMING MONTHS. A RENEWED TIGHTENING OF MONETARY POLICY COULD STIFLE INVESTMENT AND HURT THE CONSTRUCTION INDUSTRY WHICH IS ONE OF THE PRESENT PACEMAKERS OF THE ECONOMY. ON THE OTHER HAND, INCREASED MONEY GROWTH

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RUNS UP AGAINST THE LAWS OF SUPPLY AND DEMAND, MUCH TO THE CHAGRIN OF THOSE FAVORING AUSTERITY ABOVE ALL.

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